Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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AUG - 2 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of	)	
	)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	

COMMENTS OF PACIFIC TELECOM, INC.

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SUMMARY

Pacific Telecom, Inc. ("PTI") urges the Commission to recognize that rural universal service presents unique issues. PTI therefore provides specific answers in its Comments to the following questions:

Question 26: If the existing high-cost support mechanism remains in place (on either a permanent or temporary basis), what modifications, if any, are required to comply with the Telecommunications Act of 1996?

Question 27: If the high-cost support system is kept in place for rural areas, how should it be modified to target the fund better and consistently with the Telecommunications Act of 1996?

The Joint Board is correct to consider maintaining the existing high-cost support mechanisms for rural service areas and rural carriers under the Telecommunications Act of 1996. In light of the unique universal service issues presented by rural telecommunications, however, the Joint Board should modify the existing Universal Service Fund ("USF") by: (i) broadening the base of contributions to the USF; (ii) adopting annual accountability and reporting standards; (iii) raising the "front end" threshold for USF recovery and limiting recovery for general and administrative expenses; and (iv) applying the USF to rural areas in particular.

Question 28: What are the potential advantages and disadvantages of basing payments to competitive carriers on the book costs of the incumbent local exchange carrier operating in the same service area?

Basing payments on the book costs of incumbent LECs has the advantages of: (i) being "specific, predictable and sufficient" for rural needs; (ii) being auditable; (iii) preventing over-recovery and incentives for gaming the system; (iv) being technologically neutral; and (v) serving as the best economic signal for potential competitive entry.

Question 29: Should price cap companies be eligible for high-cost support, and if not, how would the exclusion of price cap carriers be consistent with the provisions of Section 214(e) of the Communications Act? In the alternative, should high-cost support be structured differently for price cap carriers than for other carriers?

Price cap companies should be eligible for universal service support. But the urban markets that most price cap companies serve may raise issues -- particularly competitive issues -- that are distinct from those faced by rural carriers.

<u>Question 35: US WEST has stated that an industry task force "could develop a final model process utilizing consensus model assumptions and input data." US WEST Comments at 10. Comment on US WEST's statement, discussing potential legal issues and practical considerations in light of the requirement under the 1996 Act that the Commission take final action in this proceeding within six months of the Joint Board's recommended decision.</u>

The Joint Board should conduct a thorough analysis of the various proposed benchmark and costing models to determine whether they may be suitable substitutes for the USF. However, the Commission need not complete all action by November 8, 1996. In light of the fact that the Joint Board has an indefinite existence under the Telecommunications Act of 1996, the Joint Board should ensure that, after the initial action that the law requires, it has adequate time to schedule and inquire into matters relating to the special concerns of small rural telephone companies.

<u>Question 40: If a proxy model is used, what, if any, measures are necessary to assure that urban rates and rates in rural, insular, and high-cost areas are reasonably comparable, as required in Section 254(b)(3) of the 1996 Act.</u>

The use of a proxy model ultimately may prove appropriate, but would require substantial additional time to develop, analyze, and implement. Based on its analysis of the initial Benchmark Cost Model, PTI believes that it would be possible to use a "price point" to ensure that urban and rural rates are reasonably comparable. PTI currently is studying the revised models and plans to submit its analyses to the Commission

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COMMENTS OF PACIFIC TELECOM, INC.

Pacific Telecom, Inc. ("PTI") submits these Comments in response to the Commission's Public Notice ("Notice") seeking additional insight on subjects previously noticed in the above-captioned proceeding.[1] PTI participated actively in the Commission's prior universal service proceedings and provides these comments to the Commission's questions addressing rural service needs.

I. INTRODUCTION

PTI believes the Joint Board should pursue a basic four-point approach oriented to rural universal service issues. This approach entails:

a. Recognizing that rural universal service issues should be separately identified and addressed,

b. Improving but maintaining the existing Universal Service Fund mechanism as the basis for supporting rural infrastructure development;

c. Conducting a thorough analysis of the various proposed benchmark and costing models to determine their suitability, if at all, as longer term substitutes for the USF; and

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1 *See* Public Notice, DA 96-1078 (rel. July 3, 1996)

d. Recognizing that the Joint Board has an indefinite existence by virtue of the 1996 Telecommunications Act, and after the initial action required by Section 254(a)(2) of the 1996 Act, it has adequate time to schedule and to inquire into matters relating to the special concerns of small rural telephone companies.

Given its approach, PTI has responded to a selected group of questions in the supplemental notice and demonstrates herein why this proposed approach will prove conducive to the achievement of Congressional universal service goals.

II. DISCUSSION

Question 26: If the existing high-cost support mechanism remains in place (on either a permanent or temporary basis), what modifications, if any, are required to comply with the Telecommunications Act of 1996?

Question 27: If the high-cost support system is kept in place for rural areas, how should it be modified to target the fund better and consistently with the Telecommunications Act of 1996?

The Joint Board is correct to consider maintaining the existing high-cost support mechanisms in place for rural service areas and rural carriers. The underlying premise of Question 27 -- that rural universal service requirements are different from those of urban areas -- has been explicitly and implicitly recognized both in the 1996 Act and in the course of these proceedings.

Congress specifically addressed rural universal service needs at multiple points in the 1996 Act. "Reasonably comparable" rates and services for rural areas is a specific universal service principle (unlike, say, "competitive neutrality"). Section 254(b)(3). Telecommunications carriers providing services to health care providers in rural areas must offer services at rates that are reasonably comparable to rates charged for similar services in urban areas. Section 254(h) "Rural telephone companies" are expressly defined and exempted from the most onerous interconnection requirements, unless and until a state commission terminates such exemption.

Sections 153(47); 251(f)(1) Rural "service areas" are separately recognized and addressed in the Act. Section 214(e)(5).

In so addressing rural requirements, Congress further evidenced a concern for infrastructure development as the primary point of focus for universal service funding. Section 254(e), "Universal Service Support," recites in part

> A carrier that receives such support shall use that support only for the provision, maintenance, and upgrading of **facilities** and services for which the support is intended (Emphasis added.)

A concern for infrastructure adequacy appears as well in the requirement that any eligible telecommunications carrier

> . . . shall, throughout the service area for which the designation is received . . . offer the services that are supported by Federal universal service support mechanisms under Section 254(c), either using its own **facilities** or a combination of its own **facilities and resale** of another carriers' services. Section 214(e)(1). (Emphasis added.)

Rather than providing funding to end-users -- a proposal which was defeated in the Senate by a vote of 82-18 -- Congress expressly provided that "only an eligible telecommunications carrier designated under section 214(e) shall be eligible to receive specific Federal universal service support." Section 254(e) Carriers make investments in facilities; consumers do not. Congress recognized that rural consumers will not obtain the universal services to be defined pursuant to Section 254(c) unless facilities investment by carriers in rural serving areas is adequately supported.

Conversely, the Act implicitly acknowledges that infrastructure development may not be the primary universal service issue for urban areas. First, urban infrastructure and the services it is capable of delivering are made the benchmark by which the "comparability" of rural services and rates is to be judged -- and not vice versa Further, Congress has provided for automatic eligibility for universal service funding by multiple urban carriers, but not so for multiple rural carriers. This reflects a concern for the cost of duplicative investment in rural areas, which areas by general admission are unlikely to attract or support competitive facilities entry because of the relatively thin demand and resulting high per unit costs of service.

Other considerations support this dichotomy between rural and urban universal service needs. The resources and size of urban LECs are substantially greater than those of rural LECs. Rural LECs have a much narrower customer base than larger LECs; for example, approximately 40% of all of PTI's exchanges serve less than 500 access lines. Moreover, the total number of rural lines on the United States is relatively de minimis. Therefore, a separate program tailored to rural consumer needs will not skew urban competitive development or national market policies. This point was recently and cogently developed by the Chairman of the Commission in public remarks, where he noted:

> If we can reform our communications system for 95% of the Americans served by large carriers that will be what we initially need to do in order to get competition and universal service policies to be complimentary. So I think that we can and should address, in the fullness of time, universal service reform for small companies. But it doesn't have to be in the exact same time and it doesn't have to be in the exact same way as we address it for large companies.[2]

The existing Universal Service Fund, as the record in this proceeding (and its predecessor, CC Docket No. 80-286) adequately demonstrates, has been extremely successful in achieving Congressional goals. The availability of USF support has permitted PTI in the past year to substantially improve the facilities, and therefore the services, received by thousands of rural Colorado, Washington, and Oregon consumers. Most critically, there can be no argument that

[2] <u>Presentation</u> of Chairman Reed Hundt to the 33rd Annual Convention of OPASTCO, July 15, 1996, p.4.

the USF is not a "specific, predictable and sufficient" mechanism, within the meaning of the statute. Section 254(b)(6) Congress acknowledged the existing USF mechanism in connection with its discussion of "service area," Section 214(e)(5) noting:

> In the case of an area served by a rural telephone company, 'service area' means such company's 'study area' unless and until the Commission and the States, after taking into account recommendations of a Federal-State Joint Board instituted under Section 410(c), establish a different definition of service area for such company

"Study area" is an integral element of the current USF structure, being the basis upon which universal service support is calculated.[3] Congress was thus not only familiar with the existing USF mechanism, it expressly contemplated the indefinite continuation of that mechanism, "unless and until" some substitute was approved and duly adopted Suggestions to the contrary clearly lack foundation.[4]

Questions 26 and 27, however, both correctly focus on the need to improve the performance of the existing Universal Service Fund. PTI has previously offered suggestions on how this could be accomplished, and again offers here a specific package of enhancements which should make this mechanism more effective without subverting its effectiveness.

1. **The basis for collecting universal service support funding should be immediately changed and broadened to relieve interexchange carriers of their current inequitable burden.**

The 1996 Act provides the legal authority for extending the obligation of universal service support to all telecommunications carriers. Section 254(d). The substitution of, for

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3 *See* discussion in Notice of Proposed Rulemaking and Order Establishing Joint Board ("Notice"), CC Docket No. 96-45, released March 8, 1996, Paragraph 42 et seq.

4 *See* Notice, supra, Paragraph 28

example, a levy determined by gross revenues, in lieu of the current presubscribed line arrangement pertaining only to interexchange carriers ("IXCs"), can be immediately implemented. The mechanisms by which the size of the Fund is determined do not depend upon or control the mechanisms by which that support is recovered. This is consistent with the 1996 Act's requirement for an expanded base of specific and predictable support provided by all providers of telecommunications services. Section 254(b)(4), (5)

2. The Joint Board should adopt annual accountability and reporting standards which will identify the uses of the USF proceeds.

Alleged abuses of the Fund proceeds can be addressed directly by requiring all recipients of support to annually demonstrate the source and application of the funds. To the extent funds are misapplied, they can be recovered through disallowances or offsets against succeeding year draws, or recovered directly, if necessary. This is in accord with the 1996 Act's requirement mandating "specific, predictable and sufficient' support and with the Commission's past concerns regarding targeting, efficiency and the size of the overall Fund. Section 254(d)(5).

3. The "front end" threshold for recovery should be raised; G&A should be limited.

Raising the front end threshold (currently 115%) to 120%, for example, in tandem with defining "affordability" in terms of some appropriate minimum level of end user contribution to loop cost, will partially address the 1996 Act's concern that rural rates be "reasonably comparable" to urban rates and will, further, address the Commission's prior concerns regarding incentives to efficiency. In addition, the Commission should limit recoverable general and administrative (overhead) expenses to a standard percentage of gross revenues per access line, based on a national average of rural telephone companies. This action will promote efficiency, deter any temptation to abuse and control the Fund size.

4. **The USF should be applied in particular to rural service areas.**

The USF was intended principally to ensure adequate support for facilities investment in rural serving areas. This orientation is entirely consistent with the Congressional intent as expressed in the 1996 Act and the accompanying Joint Explanatory Statement of the Committee of Conference.[5] Urban universal service, as discussed above, may require separate consideration and solution(s), particularly where those urban areas are served by large companies subject to competition and to special and specific requirements under the 1996 Act concerning their future activities.[6] Applying the existing USF to rural telephone companies and to those entrants who subsequently qualify for eligible telecommunications carrier status in rural serving areas under Section 214(e)(1), (2), and (5) of the 1996 Act will not only further the purposes of the 1996 Act, but will help achieve the Commission's goals of competitive neutrality, targeting and control over the future size of the Fund.

With these specific changes, the existing USF will achieve the goals of Congress in terms of "specific, predictable and sufficient" support mechanisms for universal service with minimum disruption to the current system, which has been demonstrably successful in achieving universal service goals.[7] It also would ameliorate deficiencies perceived by the Commission to exist in the current fund mechanism.[8]

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5 S. Rep. No. 104-458, 104th Cong., 2d Sess. 131 (1996).

6 *See, e.g.,* Section 271 (Bell operating company entry into interLATA services), Section 273 (Manufacturing by Bell operating companies).

7 *See* Comments of Pacific Telecom, Inc., CC Docket No. 80-286 (filed October 10, 1995) at 2.

8 *See* "A Review of Current Interstate Support Mechanisms," Common Carrier Bureau, Federal Communications Commission (February 23, 1996).

Question 28. What are the potential advantages and disadvantages of basing payments to competitive carriers on the book costs of the incumbent local exchange carrier operating in the same service area?

The advantages of basing payments to carriers on actual recorded costs of the incumbent local exchange carrier are at least fivefold

First, actual costs ensure that support is "specific, predictable and sufficient" as expressly required by the Act Section 254(b)(5) The enhancements proposed above (annual accountability requirements, limited G&A, etc.) will help ensure that the funds obtained are in fact needed and are in fact applied to rural consumer needs Accordingly, actual recorded costs will provide the measure of specificity and sufficiency

Second, recorded costs are verifiable being subject to audit. This quality is important to the deterrent effects of the proposed enhancements, because any rural eligible telecommunications carrier can be called upon to demonstrate from corporate records the source and application of the support funding. It is also important to ensuring that funding is "sufficient" in the limiting sense of being no more than is necessary to achieve Congressional designs.

Third, recovery on the basis of actual cost, rather than schedule or proxy cost, prevents over recovery and incentives for gaming the system via phantom investment. Establishing payment levels tied to fictitious, pseudo-costs can only coincidentally produce support payments related to the actual amount of support needed This result would conflict with the Congressional mandate for specific and sufficient levels of support. It would also tend to encourage investment (or non-investment) patterns which would maximize universal service support margins, rather than universal service, since receipt of support funding would be delinked from actual infrastructure investment. Use of proxy costs in a rural area could thus tend to promote gaming of support payments, rather than adequate infrastructure development.

Fourth, actual costs are technologically neutral. While the bulk of rural LEC infrastructure is currently copper wireline based, it is unlikely to remain so indefinitely. As the capacity of copper is enhanced by such evolutions as asymmetrical digital subscriber line (ADSL), or supplanted by fiber optic or wireless technology, the actual costs of the company will reflect such changes. The historical objection that rural LECs have no incentive to upgrade facilities lacks any proof in the record of this proceeding. To the contrary, it is clear that rural LECs have significantly improved rural infrastructure. The 1996 Act, moreover, provides additional incentives to do so, since barriers to entry by competitors are reduced for rural serving areas and since rural carriers will not qualify for support unless their facilities can provide the services established under Section 254(c).

Fifth and finally, support based on actual costs provides the best economic signal for potential competitive entry. If required to be reported publicly on an annual basis, such support amounts will give second entrants real-world and real-time information on the current costs of service in any particular rural serving area. Instead of the potential for hidden margins and phantom investment, noted earlier, competitors will see actual costs to measure against the actual costs which they must incur in connection with any contemplated competitive foray.

Question 29. Should price cap companies be eligible for high-cost support, and if not, how would the exclusion of price cap carriers be consistent with the provisions of Section 214(e) of the Communications Act? In the alternative, should high-cost support be structured differently for price cap carriers than for other carriers?

Price cap companies should be eligible for universal service support. The 1996 Act makes clear that carriers serving non-rural areas are entitled to such support. Section 214(e)(2). But the urban markets that most price cap companies serve may raise issues different from those faced by rural carriers.

That urban universal service needs may differ significantly from rural needs has been recognized previously. As detailed above, rural consumer needs and Congressional concern are both tied to infrastructure development, upon which the 1996 Act repeatedly focuses. Urban needs, however, may be more consumer specific. The Notice in this proceeding detailed at length a number of issues concerning support for low-income consumers. Many of the issues addressed related to the expense which telephone services represents to the poor. Free access to telephone service information (Paragraph 51), toll limitation services (Paragraph 54), and reduced service deposits (Paragraph 56), while important considerations, presume the existence of facilities. With respect to rural areas and requirements, Congress makes no such presumption in the Act. Rather, the Act expressly distinguishes between "low-income consumers and those in rural, insular, and high-cost areas. . . ." Section 254(b)(3).

Further, the differences between large company and small company requirements and effects has been noted by the Commission in recent public statements. Chairman Hundt, addressing the Organization for the Protection and Advancement of Small Telephone Companies, observed that:

> The new Act explicitly targets as its focus the small number of big phone companies that in fact serve 95% of phone subscribers and the new law wisely exempts small telephone companies from unbundling, interconnection, and resale requirement. . . . Nevertheless, you are key players in our universal service system and the universal service volume of the trilogy will be important to you. Universal service will continue to be the way that we fund and develop and deploy networks in our nation's rural and high cost areas. . .[9]

[9] Presentation of Chairman Reed Hundt to the 33rd Annual Convention of OPASTCO, July 15, 1996, p. 3.

The imminence of competition is another distinguishing consideration. Urban companies increasingly are experiencing competition Indeed, many of these companies are engaged in vigorous demonstrations of the advent of such competition, in order to promote their entry into in-region, interLATA, interexchange market places Competitive pressures may lead urban carriers to divert capital investment and management attention away from rural markets Given the choice, under a price cap regime, of investing $1 in a rural area, in an urban area, or not at all, rural areas will likely rank third on the scale This is particularly so when the dynamics of competition are not being played out in rural areas, and where disproportionate capital investment and operating expense per customer reached occurs

Finally, the large price cap LECs have themselves addressed universal service, not in terms of the USF, but rather in terms of the larger issues of access charges, unbundling, and recovery of the implicit subsidies contained therein PTI agrees with the concerns which they and USTA have expressed in the parallel interconnection proceedings of CC Docket No. 96-98. But the very nature and magnitude of the problem being identified by those companies reinforces the view that urban company needs and rural telephone company needs are different in quality and quantity. Chairman Hundt is entirely correct in his view that those issues need to be separately addressed and administered in the context of rural telephone companies, as part of this proceeding.

<u>Question 35. US West has stated that an industry task force "could develop a final model process utilizing consensus model assumptions and input data." US WEST Comments at 10. Comment on US WEST's statement, discussing potential legal issues and practical considerations in light of the requirement under the 1996 Act that the Commission take final action in this proceeding within six months of the Joint Board's recommended decision.</u>

When the Commission sought comment last fall on the Joint Sponsor's (US WEST, NYNEX, MCI, and Sprint) Benchmark Cost Model (BCM), PTI was one of only two local exchanges carriers (out of approximately 50 commenting ILECs) to perform an analysis of the model proposed. Subsequently, as it represented it would, PTI has acquired, studied, and run BCM I for its operating areas. A sample of PTI's model analysis, showing results for some of its Colorado serving areas, is included as the next page.

PTI's work with BCM I was preliminary in nature and will be superseded by BCM II (with which PTI has not yet had a full opportunity to work). Even so, it demonstrates two essential points which the Company believes the Joint Board needs to recognize.

First, an alternative modelling for universal service funding is possible. But the model itself cannot substitute for rational decision-making with respect to the policy assumptions upon which the model is based. For example, PTI's analysis utilizes actual costs, because actual costs achieve the statutory goals for universal service (as discussed above) where proxy costs do not. The BCM program will readily accommodate such decisions, and could be made to achieve additional goals, such as targeting of funding down to the census block group (CBG) level (reflected in Column G of the exhibit). But the model, in and of itself, does not solve policy debates.

The second point is that a great deal of work remains to be done before any of the proposed models can be usefully and lawfully applied in a rural service environment. Since its

PTI Economic Analysis

Company Proprietary

Schedule A - BCM 1
Costs and Support by CBG

A OBS	B CBG_ID	C Office (SWC)	D (R*V) 12H Monthly Cost from PTI Rev Req: Loop Cost/Ln	E (S*W) 12H Switch Cost/Ln	F D+E Total Cost/Ln	G F-Z Support per Line	H P*Total Host Lns PTI Tot Lines	J D*H*12 Annual Costs & Support: Loop Cost	K E*H*12 Switch Cost	L J+K Total Cost	M G*H*12 PTI Support	O BCM INPUT Development of PTI HH/CBG: CBG HH	P O/Total Host HH CBG HH Wght
Colorado													
1	80639021005	BURLCOMA	3.30	6.48	9.79	0.00	647	25,643	50,345	75,988	0	461	0.1604
2	80639021004	BURLCOMA	5.60	6.48	12.08	0.00	688	46,198	53,512	99,709	0	490	0.1705
3	80639021003	BURLCOMA	10.74	6.47	17.21	0.00	329	42,388	25,555	67,942	0	234	0.0814
4	80639021007	BURLCOMA	135.28	6.52	141.80	122.53	60	97,399	4,696	102,094	88,219	43	0.0150
5	80639021006	BURLCOMA	167.28	6.49	173.77	154.49	122	244,891	9,501	254,392	226,179	87	0.0303
6	80639021002	BURLCOMA	170.02	6.47	176.49	157.22	350	714,071	27,193	741,263	660,326	249	0.0866
7	80639021001	BURLCOMA	181.61	6.47	188.08	168.81	159	346,511	12,340	358,851	322,082	113	0.0393
8	80179000002	CHMLCOMA	32.29	10.54	42.83	22.54	665	257,646	84,127	341,772	179,905	474	0.1649
9	80179000003	CHMLCOMA	218.07	10.52	228.60	208.31	104	272,155	13,134	285,289	259,974	74	0.0257
10	80179000001	CHMLCOMA	229.02	10.52	239.55	219.26	104	285,820	13,134	298,954	273,639	74	0.0257
11	80639022003	SRTNCOMA	35.96	11.06	47.02	27.75	400	172,599	53,111	225,710	133,210	285	0.0992
12	80639022004	SRTNCOMA	138.67	11.09	149.76	130.49	63	104,835	8,386	113,221	98,652	45	0.0157
13	80639022001	SRTNCOMA	144.95	11.01	155.96	136.69	110	191,335	14,536	205,871	180,433	78	0.0271
14	80639022002	SRTNCOMA	172.73	11.08	183.80	164.53	157	325,415	20,872	346,286	309,980	112	0.0390
15	80639022005	SRTNCOMA	193.87	11.09	204.97	185.70	77	179,140	10,249	189,389	171,583	55	0.0191
	Burlington		**68.28**	**8.28**	**76.56**	**59.98**	**4,036**	**3,306,045**	**400,688**	**3,706,733**	**2,904,184**	**2,874**	**1.0000**
16	81099777003	CNTRCOMA	5.87	7.19	13.06	0.00	353	24,850	30,460	55,310	0	261	0.1833
17	81099777002	CNTRCOMA	40.04	7.18	47.23	34.02	624	299,841	53,801	353,642	254,719	461	0.3237
18	81059700001	CNTRCOMA	114.38	7.21	121.58	105.59	193	264,899	16,689	281,587	244,544	143	0.1004
19	81099777001	CNTRCOMA	145.94	7.20	153.14	139.92	227	397,533	19,606	417,140	381,154	168	0.1180
20	81099778004	SGCHCOMA	18.11	12.95	31.05	17.84	350	76,041	54,375	130,417	74,931	259	0.1819
21	81099778005	SGCHCOMA	549.71	12.94	562.65	549.44	146	963,085	22,674	985,759	962,614	108	0.0758
22	81099778001	SGCHCOMA	688.52	13.12	701.64	688.43	32	264,391	5,039	269,429	264,358	24	0.0169
	Center		**99.11**	**8.77**	**107.88**	**94.42**	**1,926**	**2,290,640**	**202,644**	**2,493,284**	**2,182,319**	**1,424**	**1.0000**
23	80799736002	CREDCOMA	35.21	11.71	46.91	30.39	580	245,030	81,478	326,508	211,494	195	0.7769
24	80799736001	CREDCOMA	398.92	11.68	410.59	394.07	167	799,427	23,399	822,826	789,710	56	0.2231
	Creede		**116.62**	**11.70**	**128.22**	**111.69**	**747**	**1,044,457**	**104,877**	**1,149,334**	**1,001,204**	**251**	**1.0000**
25	80639900006	DLRSCOMA	36.77	5.37	42.15	23.40	141	62,218	9,093	71,312	39,599	59	0.0488
26	80639900005	DLRSCOMA	76.39	5.37	81.76	63.02	55	50,415	3,545	53,960	41,590	23	0.0190
27	80639902005	DLRSCOMA	81.05	5.38	86.43	67.69	852	828,640	55,023	883,662	692,039	357	0.2950
28	80639900001	DLRSCOMA	154.74	5.38	160.12	141.37	480	891,291	30,979	922,270	814,313	201	0.1661
29	80339900004	DVCKCOXC	53.40	5.78	59.18	42.55	776	497,276	53,811	551,086	396,259	325	0.2686
30	80339900003	DVCKCOXC	158.41	5.80	164.21	147.59	138	262,332	9,603	271,935	244,401	58	0.0479
31	80339900005	DVCKCOXC	176.51	5.78	182.29	165.66	339	718,036	23,511	741,547	673,910	142	0.1174
32	81139962002	DVCKCOXC	342.06	5.80	347.86	322.40	107	439,226	7,451	446,676	413,958	45	0.0372
	Dolores		**108.19**	**5.57**	**113.76**	**96.69**	**2,888**	**3,749,433**	**193,016**	**3,942,449**	**3,316,070**	**1,210**	**1.0000**
33	80379531003	EAGLCOXC	25.66	7.68	33.33	2.56	1,397	430,090	128,695	558,785	42,859	737	0.3641
34	80379531004	EAGLCOXC	33.01	7.69	40.70	9.92	70	27,726	6,461	34,187	8,336	37	0.0183
35	80379531002	GYPSCOXC	43.78	6.81	50.59	19.82	1,365	717,121	111,597	828,718	324,610	720	0.3557
36	80379531001	GYPSCOXC	92.21	6.81	99.02	68.24	472	522,254	38,594	560,848	386,533	249	0.1230
37	81079551001	MCCYCOXC	69.18	15.19	84.36	53.59	533	442,448	97,146	539,594	342,752	281	0.1388
	Eagle		**46.48**	**8.31**	**54.79**	**24.01**	**3,836**	**2,139,639**	**382,493**	**2,522,132**	**1,105,090**	**2,024**	**1.0000**
38	80379534001	EDWRCOXC	13.27	3.42	16.69	0.00	1,990	316,888	81,774	398,663	0	409	0.4739
39	80379531005	EDWRCOXC	25.94	3.42	29.36	0.00	2,209	687,556	90,772	778,327	0	454	0.5261
	Edwards		**19.93**	**3.42**	**23.36**	**0.00**	**4,199**	**1,004,444**	**172,546**	**1,176,990**	**0**	**863**	**1.0000**
40	80939500002	GFFYCOXA	51.92	18.76	70.68	43.93	98	61,057	22,065	83,122	51,662	94	0.1275
41	80439700001	GFFYCOXA	62.05	18.77	80.82	64.17	198	147,436	44,600	192,036	152,459	190	0.2576
42	80939500003	GFFYCOXA	137.76	18.41	156.17	129.42	17	28,104	3,756	31,859	26,402	16	0.0217
43	80939500004	GFFYCOXA	528.25	19.56	547.81	521.06	5	31,695	1,174	32,869	31,264	5	0.0068
44	80439700002	HWRDCOXC	44.33	14.57	58.90	42.24	450	239,359	78,676	318,035	228,089	432	0.5862
	Howard		**66.16**	**16.33**	**71.48**	**53.22**	**767**	**507,650**	**150,271**	**657,921**	**489,876**	**737**	**1.0000**
45	80679713002	IGNCCOMA	11.29	14.77	26.06	4.59	435	58,938	77,096	136,035	23,964	511	0.3682
46	80679712003	IGNCCOMA	103.83	14.77	118.60	97.13	400	498,369	70,912	569,281	466,245	470	0.3386
47	80679713001	IGNCCOMA	108.90	14.79	123.69	102.23	346	452,166	61,407	513,573	424,447	407	0.2932
	Ignacio		**71.23**	**14.78**	**86.01**	**64.64**	**1,181**	**1,009,473**	**209,416**	**1,218,889**	**914,676**	**1,388**	**1.0000**
48	80219748002	ANTTCOMA	43.49	10.05	53.54	41.71	677	353,300	81,629	434,929	338,876	566	0.1723
49	80219748001	ANTTCOMA	142.54	10.07	152.61	140.79	154	263,417	18,604	282,021	260,172	129	0.0393
50	80219747002	LAJRCOMA	25.77	7.41	33.19	21.38	300	92,768	26,679	119,467	76,903	251	0.0764
51	80219747003	LAJRCOMA	76.75	7.40	84.15	72.33	444	408,913	39,433	448,346	385,352	371	0.1129
52	80219747001	LAJRCOMA	102.16	7.41	109.57	97.75	574	703,712	51,019	754,731	673,282	480	0.1461
53	80219746002	LAJRCOMA	204.09	7.39	211.48	199.66	193	472,676	17,113	489,789	462,406	161	0.0490
54	80219746001	MNSSCOMA	34.29	11.23	45.53	33.71	469	193,007	63,227	256,234	189,692	392	0.1193
55	80219749002	MNSSCOMA	52.83	11.21	64.04	52.22	223	141,381	30,001	171,382	139,743	186	0.0566
54	80230827003	SNLSCOMA	39.49	9.61	49.11	38.22	376	178,187	43,376	221,563	172,469	314	0.0956
55	80230827004	SNLSCOMA	140.19	9.59	149.78	138.90	162	272,526	18,649	291,175	270,022	135	0.0411
56	80230827002	SNLSCOMA	150.24	9.57	159.81	148.93	77	138,821	8,841	147,662	137,608	64	0.0195
57	80230827005	SNLSCOMA	180.06	9.53	189.58	178.70	29	62,660	3,315	65,975	62,189	24	0.0073
58	80230827001	SNLSCOMA	207.62	9.61	217.22	206.34	254	632,811	29,286	662,098	628,932	212	0.0645
	LaJara		**83.99**	**9.14**	**92.14**	**80.53**	**3,930**	**3,914,201**	**431,170**	**4,345,371**	**3,797,666**	**3,286**	**1.0000**

06/01/96

A OBS	R PTI INPUT Wire Center Revenue Requirement: Loop	S PTI INPUT Switching	T BCM INPUT Development of PTI Cost/CBG: Loop Costs Per CBG	U BCM INPUT Sw Inv Per CBG	V T/Total T for WC Loop Wgt	W U/Total U for WC Sw Inv Wgt	Y CENSUS INPUT Annual Money Income /HH	Z 0.01*Y 12 Price Pt 1.0% Monthly Pers Inc)	AB T/12O Comparison of BCM &PTI Rev Req: BCM Loop Cost/HH	AC D PTI Loop Cost/Ln	AD U/12O BCM Switch Cost/HH	AE E PTI Switch Cost/Ln
1	3,306,045	400,688	13,972	57,620	0.0078	0.1256	23125	19.27	2.53	3.30	10.42	6.48
2	3,306,045	400,688	25,172	61,245	0.0140	0.1335	23125	19.27	4.28	5.60	10.42	6.48
3	3,306,045	400,688	23,066	29,248	0.0128	0.0638	23125	19.27	8.23	10.74	10.42	6.47
4	3,306,045	400,688	53,070	5,375	0.0295	0.0117	23125	19.27	102.85	135.28	10.42	6.52
5	3,306,045	400,688	133,434	10,874	0.0741	0.0237	23125	19.27	127.81	167.28	10.42	6.49
6	3,306,045	400,688	389,077	31,123	0.2160	0.0679	23125	19.27	130.21	170.02	10.42	6.47
7	3,306,045	400,688	188,804	14,124	0.1048	0.0308	23125	19.27	139.24	181.61	10.42	6.47
8	3,306,045	400,688	140,384	96,285	0.0779	0.2100	24341	20.28	24.68	32.29	16.93	10.54
9	3,306,045	400,688	148,290	15,032	0.0823	0.0328	24341	20.28	166.99	218.07	16.93	10.52
10	3,306,045	400,688	155,736	15,032	0.0865	0.0328	24341	20.28	175.38	229.02	16.93	10.52
11	3,306,045	400,688	94,045	60,786	0.0522	0.1325	23125	19.27	27.50	35.96	17.77	11.06
12	3,306,045	400,688	57,122	9,568	0.0317	0.0209	23125	19.27	105.78	138.67	17.77	11.09
13	3,306,045	400,688	104,253	16,636	0.0579	0.0363	23125	19.27	111.38	144.95	17.77	11.01
14	3,306,045	400,688	177,309	23,886	0.0984	0.0521	23125	19.27	131.93	172.73	17.77	11.08
15	3,306,045	400,688	97,666	11,731	0.0542	0.0256	23125	19.27	147.89	193.87	17.77	11.09
Burlington	**3,306,045**	**400,688**	**1,801,373**	**458,586**	**1.0000**	**1.0000**	**23388**	**19.49**	**52.24**	**68.28**	**13.30**	**8.28**
16	2,290,640	202,644	10,410	40,119	0.0108	0.1503	15853	13.21	3.32	5.87	12.81	7.19
17	2,290,640	202,644	125,609	70,861	0.1309	0.2655	15853	13.21	22.71	40.04	12.81	7.18
18	2,290,640	202,644	110,070	21,981	0.1156	0.0824	19193	15.99	64.67	114.38	12.81	7.21
19	2,290,640	202,644	166,533	25,824	0.1735	0.0968	15853	13.21	82.61	145.94	12.81	7.20
20	2,290,640	202,644	31,855	71,618	0.0332	0.2683	15853	13.21	10.25	18.11	23.04	12.95
21	2,290,640	202,644	403,453	29,864	0.4204	0.1119	15853	13.21	311.31	549.71	23.04	12.94
22	2,290,640	202,644	110,758	6,636	0.1154	0.0249	15853	13.21	384.58	688.52	23.04	13.12
Center	**2,290,640**	**202,644**	**959,688**	**266,902**	**1.0000**	**1.0000**	**16179**	**13.48**	**56.03**	**99.11**	**15.61**	**8.77**
23	1,044,457	104,877	65,777	75,412	0.2346	0.7769	19830	16.53	28.11	35.21	32.23	11.71
24	1,044,457	104,877	214,602	21,657	0.7654	0.2231	19830	16.53	319.35	398.92	32.23	11.68
Creede	**1,044,457**	**104,877**	**280,379**	**97,069**	**1.0000**	**1.0000**	**19830**	**16.53**	**93.22**	**116.62**	**32.23**	**11.70**
25	3,749,433	193,016	17,430	11,779	0.0166	0.0471	22491	18.74	24.62	36.77	16.64	5.37
26	3,749,433	193,016	14,123	4,592	0.0134	0.0184	22491	18.74	51.17	76.39	16.64	5.37
27	3,749,433	193,016	232,131	71,271	0.2210	0.2851	22491	18.74	54.19	81.05	16.64	5.38
28	3,749,433	193,016	249,682	40,127	0.2377	0.1605	22491	18.74	103.52	154.74	16.64	5.38
29	3,749,433	193,016	139,304	69,701	0.1326	0.2788	19952	16.63	35.72	53.40	17.87	5.78
30	3,749,433	193,016	73,486	12,430	0.0700	0.0498	19952	16.63	105.59	158.41	17.87	5.80
31	3,749,433	193,016	201,147	30,454	0.1915	0.1218	19952	16.63	118.04	176.51	17.87	5.78
32	3,749,433	193,016	123,043	9,651	0.1171	0.0386	30578	25.48	227.86	342.06	17.87	5.80
Dolores	**3,749,433**	**193,016**	**1,050,346**	**250,013**	**1.0000**	**1.0000**	**21686**	**18.07**	**72.31**	**108.19**	**17.22**	**5.57**
33	2,139,639	382,493	480,483	131,731	0.2010	0.3365	36931	30.78	54.33	25.66	14.89	7.68
34	2,139,639	382,493	30,975	6,613	0.0130	0.0169	36931	30.78	69.76	33.01	14.89	7.69
35	2,139,639	382,493	801,145	114,229	0.3352	0.2918	36931	30.78	92.73	43.78	13.22	6.81
36	2,139,639	382,493	583,446	39,504	0.2441	0.1009	36931	30.78	195.26	92.21	13.22	6.81
37	2,139,639	382,493	494,280	99,437	0.2068	0.2540	36931	30.78	146.59	69.18	29.49	15.19
Eagle	**2,139,639**	**382,493**	**2,390,330**	**391,514**	**1.0000**	**1.0000**	**36941**	**30.78**	**98.45**	**46.48**	**16.12**	**8.31**
38	1,004,444	172,546	287,173	68,894	0.3155	0.4739	36931	30.78	58.51	13.27	14.04	3.42
39	1,004,444	172,546	623,082	76,474	0.6845	0.5261	36931	30.78	114.37	25.94	14.04	3.42
Edwards	**1,004,444**	**172,546**	**910,255**	**145,368**	**1.0000**	**1.0000**	**36931**	**30.78**	**87.90**	**19.93**	**14.04**	**3.42**
40	507,650	150,271	152,366	31,230	0.1203	0.1466	32102	26.75	135.08	51.92	27.69	18.76
41	507,650	150,271	367,029	63,124	0.2904	0.2966	19988	16.66	161.37	62.05	27.69	18.77
42	507,650	150,271	70,133	5,316	0.0554	0.0250	32102	26.75	365.28	137.76	27.69	18.41
43	507,650	150,271	79,006	1,661	0.0624	0.0078	32102	26.75	1318.26	528.25	27.69	19.56
44	507,650	150,271	597,327	111,354	0.4715	0.5236	19988	16.66	115.23	44.33	21.48	14.57
Howard	**507,650**	**150,271**	**1,266,863**	**212,685**	**1.0000**	**1.0000**	**21988**	**18.26**	**143.21**	**66.16**	**24.66**	**16.33**
45	1,009,473	209,416	54,357	66,772	0.0584	0.3682	25759	21.47	8.66	11.29	11.22	14.77
46	1,009,473	209,416	459,637	63,254	0.4937	0.3386	25759	21.47	81.50	103.83	11.22	14.77
47	1,009,473	209,416	417,026	54,775	0.4479	0.2932	25759	21.47	85.39	108.90	11.22	14.79
Ignacio	**1,009,473**	**209,416**	**931,020**	**186,800**	**1.0000**	**1.0000**	**25759**	**21.47**	**66.88**	**71.23**	**11.22**	**14.78**
48	3,914,201	431,170	248,543	107,588	0.0903	0.1893	14188	11.82	36.59	43.49	15.84	10.05
49	3,914,201	431,170	185,311	24,521	0.0673	0.0431	14188	11.82	119.71	142.54	15.84	10.07
50	3,914,201	431,170	65,278	35,163	0.0237	0.0619	14188	11.82	21.67	25.77	11.67	7.41
51	3,914,201	431,170	287,888	51,974	0.1045	0.0915	14188	11.82	64.61	76.75	11.67	7.40
52	3,914,201	431,170	495,053	67,244	0.1798	0.1183	14188	11.82	85.95	102.16	11.67	7.41
53	3,914,201	431,170	332,522	22,555	0.1208	0.0397	14188	11.82	172.11	204.09	11.67	7.39
54	3,914,201	431,170	135,776	83,335	0.0493	0.1466	14188	11.82	28.66	34.29	17.72	11.23
55	3,914,201	431,170	98,460	39,541	0.0361	0.0696	14188	11.82	44.56	52.83	17.72	11.21
54	3,914,201	431,170	125,353	57,170	0.0455	0.1006	13057	10.88	33.27	39.49	15.17	9.61
55	3,914,201	431,170	191,719	24,560	0.0696	0.0433	13057	10.88	118.34	140.19	15.17	9.59
56	3,914,201	431,170	97,659	11,653	0.0355	0.0205	13057	10.88	127.16	150.24	15.17	9.57
57	3,914,201	431,170	44,080	4,370	0.0160	0.0077	13057	10.88	153.06	180.06	15.17	9.53
58	3,914,201	431,170	445,175	38,599	0.1617	0.0679	13057	10.88	174.99	207.62	15.17	9.61
LaJara	**3,914,201**	**431,170**	**2,753,694**	**568,292**	**1.0000**	**1.0000**	**13037**	**11.61**	**69.92**	**83.90**	**14.42**	**9.14**

inception, the Joint Sponsors have spent considerable time and effort in utilizing the BCM against one another. Its continuing proponents have expressly and tacitly admitted flaws with BCM I and have only recently filed BCM II in this proceeding in an effort to correct such flaws. Separately, the interexchange carriers, led principally by AT&T, have proposed an alternative "Hatfield" cost model which has been widely criticized and was recently dismissed from consideration in current California Public Utilities Commission proceedings.[10] Nonetheless, the sparring between AT&T and its Hatfield adherents and US WEST and the BCM adherents demonstrates that neither model is ready for Joint Board consideration or Commission adoption at present.

Given these considerations, PTI supports US WEST's suggestion that a representative industry task force be formed to develop a suitable model or models for rural and/or urban application, as the facts warrant. PTI expressly desires to participate in any such task force, and would make available its analysis to date to further the work of that group. The partisan nature of the present offerings, however, suggests that Joint Board oversight, possibly through the vehicle of its staff, will be essential if a reasoned, fair, and legally adequate model is to be derived.

That the Joint Board has adequate time to fully consider such modelling possibilities cannot be questioned. Under the Act, the life of the Joint Board is indefinite. To be sure, Section 254(a)(1) states:

> The Joint Board shall, after notice and opportunity for public comment, make its recommendations to the Commission 9 months after the date of enactment of the Telecommunications Act of 1996.

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10 California Public Utilities Commission, Rulemaking on the Commission's Own Motion to Govern Open Access to Bottleneck Services and Establish a Framework for Network Architecture Development of Dominant Carrier Networks, R. 93-04-003. Prehearing Conference, July 12, 1996, Transcript at p. 145 et seq.

But that section also states that the Joint Board shall

> . . . recommend changes to any of its [Commission] regulations in order to implement sections 214(e) and this section [254], including the definitions of services that are supported by Federal universal service support mechanisms and a specific timetable for completion of such recommendations.

The statute obviously contemplates the possibility of a timetable from the Joint Board which extends into the future. The 15-month limitation appearing in Section 254(a)(2) applies to FCC action on the initial Joint Board recommendations, not to the timetable proposed by the Joint Board and not to subsequent actions of the Joint Board, as that section makes clear:

> . . . . Thereafter, the Commission shall complete any proceeding to implement subsequent recommendations from any Joint Board on universal service within one year after receiving such recommendations.

This conclusion is also directly supported by the language of Section 254(c)(2):

> (2) ALTERATION AND MODIFICATIONS. - The Joint Board may, from time to time, recommend to the Commission modifications in the definition of services that are supported by Federal universal service support mechanisms.

Presumably, "from time to time" means from time to time in the future, without specific limitation, as is contemplated by Section 254(a)(2)

Given the substantial role the states are given in many aspects of the telecommunications restructuring envisioned by the Act the need for a continuing state voice -- available only under Section 410(c) -- is both good law and good policy. The need for recommendations by November 8, 1996, does not require that all possible recommendations be made by that date or that one of those recommendations cannot be the establishment of a "timetable" for studying additional aspects of the rural universal service problem, including modelling matters. Nor, assuming that such a process yields a satisfactory model, does it preclude the establishment of a "timetable" for transition to any new mechanism that might be adopted.

Congress' concern is that universal service support mechanisms be "specific, predictable and sufficient," and that concern is most appropriately addressed by ensuring that, after the initial action required by Section 254(a)(2) of the 1996 Act, the Joint Board has adequate time to schedule and to inquire into matters relating to the special concerns of small rural telephone companies.

Question 40. If a proxy model is used, what, if any, measures are necessary to assure that urban rates and rates in rural, insular, and high-cost areas are reasonably comparable, as required in Section 254(b)(3) of the 1996 act.

The use of a proxy model, as noted above, may prove warranted but will require a number of months to develop, analyze and implement (if at all). Based upon its analysis to date of the BCM I, PTI believes it would be possible to employ a "price point" as the vehicle for meeting the statutory requirements that rates be "affordable" (Section 254(b)(1)) and "comparable" (Section 254(b)(3)).

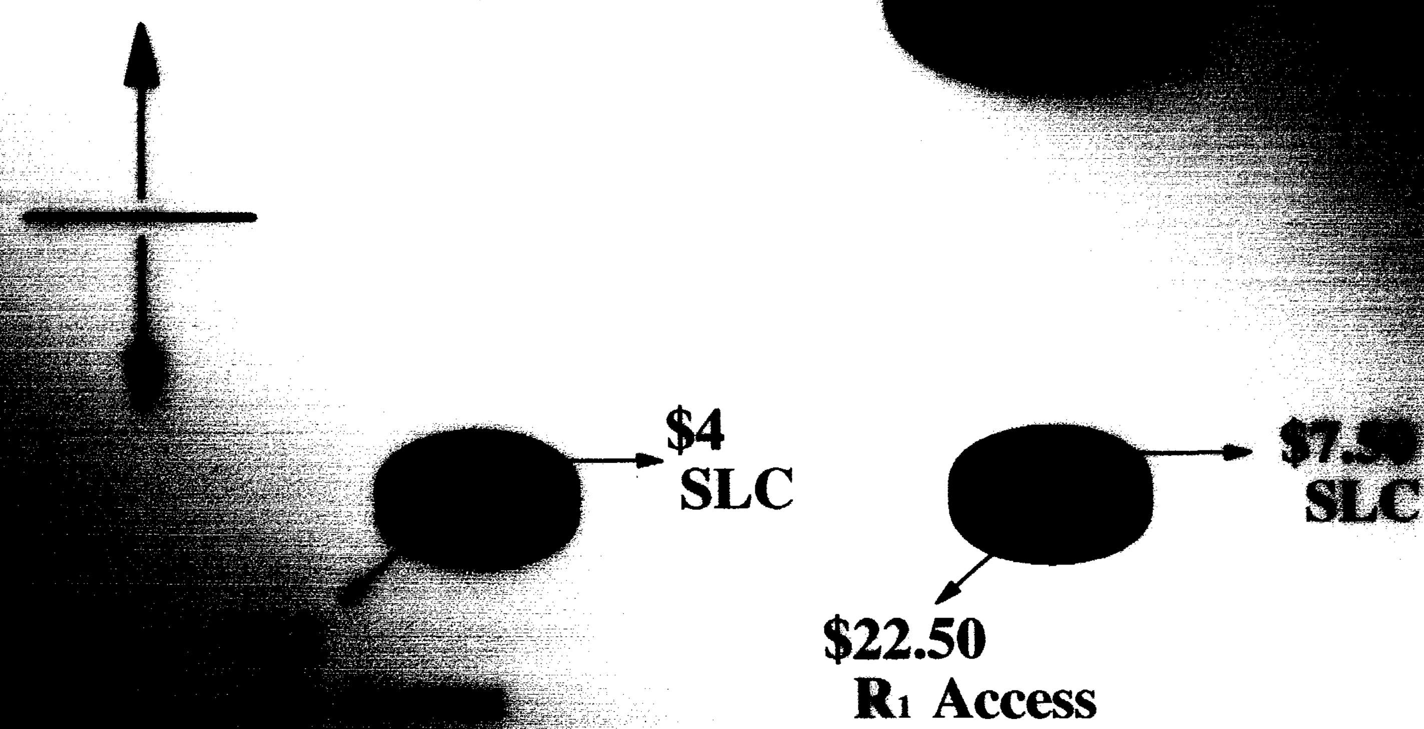
Conceptually, the price point in the context of the BCM serves as the line of demarcation separating the costs which are to be recovered from the end-user, directly or indirectly, from those which are to be recovered from the universal service fund. This functioning is shown in the next exhibit, where a price point of $30 per month is portrayed. Where actual monthly costs amount to only $18, all costs would be recovered from the existing interstate or state mechanisms. Where monthly costs equalled $150, all costs above $30 would be recovered from the universal service pool. Costs below $30 would be recovered from existing sources.

Though simple in its mechanics, the price point relies on assumptions of considerable policy import. The $30 in the example represents very roughly 1% of the monthly average income for the family of four in the nation. This percentage may be too little or too great

Benchmark C

At $16:

($0)



in terms of affordability Utilization of a family of four may not be appropriate. A nationwide average (versus by state, by country, or by census block group) may be too generalized for other policy considerations (e.g., competitive neutrality)

In a different vein, the "existing mechanisms" for recovery of the "affordable" amount warrant careful consideration. Currently, under existing regulations, all of the NTS amount would be subject to the 75-25 fixed allocation between state and federal jurisdictions. If for example existing federal carrier common line and universal service support payments from IXCs were terminated, then this amount would be recovered directly from the end-user through the subscriber line charge. If the state did away with access charges, the residual 75% might be recovered directly from the end-user in basic R1 rates

Clearly, no comprehensive answer to these issues can be offered currently. As noted above, the use of any model necessitates considerable analysis and thought by the Joint Board. PTI intends to amplify on these considerations in its comments of August 9th, next, and in its participation on any task force implemented by the Joint Board.

III. CONCLUSION

PTI recommends for the Joint Board's consideration the following outline as the basis for the recommendations called for by Section 254:

a. Recognize the distinction made by Congress between urban and rural consumer needs and devote separate attention to the universal service needs of rural telephone companies and their customers.

b. Reform and continue the existing Universal Service Fund mechanism in the specific ways suggested, in order to improve the efficiency of that mechanism in the context of rural markets This course comports with the

Congressional mandate that support mechanisms be specific, predictable and sufficient.

c. Initiate an impartial, supervised study of the various proposed cost models, including particularly the BCM II Drawing upon industry resources and authorizing the oversight of Joint Board staff will promote a rapid and reasoned review of the utility and desirability of any modeling concept.

d. Adopt a timetable reflecting the continuing study and evolution of universal service policies after the initial action required by Section 254(a)(2) that is consistent with the authority and mandates of the Act granted to the Joint Board

This course avoids disruption to the existing mechanisms which presently promote rural infrastructure development, while recognizing the possibility for adopting new mechanisms in the future, as the merits of such may warrant This course is wholly consistent with Congressional thought and expression in the 1996 Act, and will avoid unintended and undesirable consequences for rural consumers.

For the foregoing reasons, PTI respectfully requests that the Joint Board adopt the proposals contained herein, in furtherance of the requirements of the 1996 Act.

Respectfully submitted,

PACIFIC TELECOM, INC.

By: ______________________

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August 2, 1996

CERTIFICATE OF SERVICE

I hereby certify that I have this 2nd day of August, 1996, caused copies of the foregoing "Comments of Pacific Telecom, Inc." to be served by first class mail, postage prepaid, on the following:

The Honorable Reed E. Hundt, Chairman
Federal Communications Commission
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Suite 814
Washington, D.C. 20554

The Honorable Rachelle B. Chong, Commissioner
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The Honorable Sharon L. Nelson, Chairman
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